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Evaluating the Impact of the Goods and Services Tax (GST) on the Growth and Compliance of Small and Medium Enterprises (SMEs)

Rishabh Chauhan, Satakshi Nagar

School of Finance & Commerce, Galgotias University

Abstract

This research explores the impact of the Goods and Services Tax (GST) on the growth and compliance behavior of Small and Medium Enterprises (SMEs) in India. SMEs are vital to the Indian economy, contributing significantly to GDP, employment, and exports. The study evaluates how GST, introduced in 2017 as a unified indirect tax system, has influenced SME operations in terms of growth, tax compliance, and digital adaptation. Using a structured questionnaire and surveying 150 SMEs across different sectors and regions, the research adopts a quantitative approach to assess changes in turnover, compliance challenges, and technological readiness. Findings indicate that while 70.7% of SMEs reported positive business performance and turnover growth under GST, many still face difficulties due to complex filing procedures, high consultancy costs, and lack of awareness. Nearly 81% emphasized the need for more training programs. Despite rising compliance costs, the majority of respondents view GST as a beneficial reform in the long run. The study concludes that GST offers substantial opportunities for formalisation and interstate market expansion but requires continued policy simplification, digital infrastructure support, and targeted capacity-building initiatives to ensure inclusive SME growth under the new tax regime.

Introduction

The introduction of the Goods and Services Tax (GST) on July 1, 2017, marked a significant reform in India's indirect tax system, aiming to unify multiple state and central taxes into a single, streamlined system. While this reform was designed to improve tax compliance, transparency, and ease of doing business, it has had mixed impacts on Small and Medium Enterprises (SMEs), a critical sector contributing nearly 30% to India's GDP and employing over 110 million people. This study aims to evaluate how GST has influenced both the growth and compliance behaviour of Indian SMEs across trade, manufacturing, and service sectors. Specifically, the study assesses operational and financial growth indicators such as profitability, sales, and market reach post-GST implementation. It also evaluates SMEs' compliance with GST requirements including return filing, registration, input tax credit claims, and adherence to deadlines. Despite government initiatives like the Composition Scheme and threshold exemptions, many SMEs still struggle due to lack of digital literacy, increased operational costs, and refund delays. The need for trained personnel, investment in accounting software, and adapting to the digital GST Network (GSTN) have further strained resources. On the other hand, GST has created long-term opportunities by formalising the sector, allowing seamless interstate trade, and improving logistics through the removal of border check posts. By combining secondary sources (government reports, academic literature) with primary research (surveys and interviews), this study identifies the key challenges and benefits experienced by SMEs under the GST regime. It also explores the role of technological adoption in enhancing compliance efficiency. The research ultimately seeks to bridge the gap in understanding how GST impacts SMEs and to recommend policy reforms that foster inclusive growth while simplifying compliance.

Literature Review

The literature on the Goods and Services Tax (GST) highlights its transformative impact on India's taxation system, especially for Small and Medium Enterprises (SMEs). Initially designed to unify the tax structure and eliminate cascading taxes, GST brought mixed outcomes for SMEs. Studies such as Bhalla et al. (2023) report increased profitability and efficiency due to input tax credits and streamlined interstate trade. However, challenges like compliance burden, digital transition, and initial business disruptions were significant, particularly for micro-enterprises. Joseph & Jacob (2020) emphasize transitional disruptions, while Sherpa (2022) highlights the digital divide in remote areas like Sikkim, where poor internet and digital literacy made compliance difficult. International studies from Malaysia and Australia mirror these challenges, showing high initial compliance costs and IT barriers, but eventual benefits through institutional support. Procedural complexities, frequent rule changes, and refund delays further strain SMEs, especially those lacking tax knowledge or digital infrastructure. Yet, GST has encouraged formalization, improved access to finance, and expanded market reach for compliant SMEs. Comparative literature shows that, while SMEs face difficulties in early GST adoption, long-term benefits are possible with supportive policies, digital infrastructure, and targeted education. The review reveals a gap in ongoing empirical assessment of GST's evolving impact on SMEs.

Research Methodology

This study adopts a cross-sectional, descriptive quantitative research design to evaluate the impact of the Goods and Services Tax (GST) on the growth and compliance of Small and Medium Enterprises (SMEs) in India. Given the multifaceted nature of GST and its effects on business operations and tax behavior, this methodology enables the collection of both factual and perceptual data. A structured questionnaire was developed and distributed both online and offline to 150 SMEs across various sectors including manufacturing, services, and trading. Data collected focused on GST registration status, return filing behavior, financial impacts, and use of compliance tools or consultants. The study utilizes both primary and secondary data. Primary data was collected directly from SME owners and managers, while secondary data came from government reports, academic journals, and institutional databases. Quantitative analysis was applied to measure trends, challenges, and correlations. Ethical standards were strictly maintained, ensuring voluntary participation, anonymity, and data usage solely for academic purposes. Limitations of the study include a small and geographically limited sample, reliance on self-reported data, and the dynamic nature of GST policies. Despite these constraints, the research provides valuable insights into how GST has shaped SME compliance and growth post-implementation.

Data Analysis and Interpretation

The survey-based analysis, involving 150 SMEs, presents key insights into how businesses across India perceive and experience the GST regime. A majority of the surveyed enterprises (58%) are located in urban areas, indicating a concentration of SMEs in regions with better infrastructure. In terms of business type, trading (42.7%) and manufacturing (39.3%) dominate, while 52% of respondents represent small enterprises and 48% medium-sized ones, reflecting a balanced representation. A significant number of SMEs (70.7%) are registered under GST, with primary motivations including legal compliance, interstate expansion, and claiming input tax credits. However, 29.3% remain outside the formal GST framework, often due to threshold limits or perceived complexity. Notably, a substantial proportion of respondents (43.4%) reported either poor or no knowledge of GST procedures, suggesting an urgent need for awareness and training. Return filing trends reveal that 45.3% file monthly, while 29.3% report irregular compliance. Only 7.3% manage GST compliance internally, with most relying on consultants or staff. Compliance challenges are prominent: 69.3% faced filing difficulties, driven by high consultancy costs (60.7%) and time-consuming processes (58%). Despite the hurdles, 70.7% noted a positive impact on business performance, and over 51% saw a significant increase in turnover post-GST. Additionally, 69.3% agreed GST facilitated market expansion, and 70.7% confirmed enhanced transparency in operations. However, 84.6% reported increased compliance costs. A proactive 69.3% invested in staff training or accounting software. Training emerged as the top suggestion (81.3%) to improve GST implementation, alongside demands for simpler return formats. Finally, 86% of respondents expressed long-term optimism about GST, affirming its potential to support SME growth. The findings underline GST's dual impact: while it fosters growth and formalization, it also imposes significant compliance challenges that require systemic support and targeted interventions.

Conclusion

The implementation of the Goods and Services Tax (GST) marks one of the most transformative milestones in India's economic and taxation history. This study has critically examined the dual impact of GST on Small and Medium Enterprises (SMEs)—a sector that serves as the backbone of the Indian economy in terms of employment generation, innovation, and contribution to GDP. The findings indicate a predominantly positive perception of GST among SMEs. A significant proportion of businesses reported benefits such as improved transparency, streamlined tax processes, and expanded interstate market access. Specifically, 70.7% of surveyed enterprises observed positive effects on business performance, while over half noted an increase in annual turnover since GST implementation. These outcomes align with the original objectives of GST—to unify the national market, reduce cascading taxes, and promote formalization. However, the study also reveals considerable challenges. Rising compliance costs, frequent regulatory updates, and procedural complexities are major barriers, especially for micro and small enterprises with limited digital infrastructure and tax expertise. A notable 69.3% of respondents cited difficulties in return filing, with high consultancy fees and time-consuming procedures being key issues. Despite these concerns, the overall sentiment remains optimistic, with 86% believing that GST will be beneficial in the long run. Proactive adaptation is evident, with a majority of SMEs investing in accounting software and staff training. The overwhelming demand for government-led training initiatives and simplified return formats further emphasizes the need for continuous policy support and capacity building. In conclusion, while GST has laid the foundation for a more integrated and transparent business environment, its long-term success for SMEs will depend on sustained efforts to simplify compliance, bridge digital divides, and empower businesses through knowledge and accessible resources. With the right support, GST can truly serve as a catalyst for inclusive growth and modernization in the SME sector.

Suggestions

To enhance the effectiveness of the Goods and Services Tax (GST) regime and ensure greater inclusion and ease of compliance for India's SME sector, the following actionable recommendations are proposed based on the study's findings:

- 1. Simplify Return Filing Formats:** GST return forms should be redesigned to be more intuitive and less technical. This will benefit small businesses that often lack in-house accounting expertise and depend on external consultants.
- 2. Tiered Filing Based on Turnover:** Filing frequency should be aligned with business size. Micro and small enterprises should be allowed to file quarterly or bi-annually, reducing both time and financial burden.
- 3. Subsidized Training Programs:** The government should conduct region-specific training sessions—both online and offline—delivered in local languages. These programs should be subsidized or free to ensure accessibility for small businesses.

- 4. Enhance GST Portal Reliability:** Regular technical updates and infrastructure upgrades should be implemented to minimize downtime and user complaints on the GSTN portal, enabling a smoother filing experience.
- 5. Incentivize Compliance:** Introduce rewards such as tax credits or nominal cash incentives for businesses demonstrating consistent and timely GST compliance to encourage positive behavior.
- 6. Affordable Digital Solutions:** Partner with software and fintech companies to provide SMEs—especially those in rural areas—with affordable, GST-compliant accounting tools.
- 7. District-Level Help Desks:** Establish dedicated GST assistance centres at the district or taluka level to offer real-time help to SMEs for filing, registration, and troubleshooting.
- 8. Ensure Policy Stability and Clarity:** Minimize frequent rule changes and ensure all modifications are communicated clearly with sufficient lead time and documentation.
- 9. Streamline Refund Processes:** Accelerate the disbursement of GST refunds, especially for exporters and input-heavy industries, to ease working capital stress.
- 10. Integrate GST Education in Curricula:** Introduce GST-related concepts in school, college, and vocational curricula to build long-term tax literacy and a future-ready workforce.

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